

Congress of the United States

Washington, DC 20510

August 22, 2008

Jim Nussle, Director
Office of Management and Budget
EOB 1650 Pennsylvania Avenue, NW
Washington, DC 20503

Sandy K. Baruah, Acting Administrator
U.S. Small Business Administration
409 Third Street, SW, Room 7000
Washington, DC 20416-2230

Dear Mr. Nussle and Mr. Baruah:

As you know, the State of Iowa is currently in the process of recovering from a devastating series of tornadoes, floods, and severe storms that caused significant economic hardship for numerous businesses and individuals. The Federal government has long played a role in assisting in the recovery from natural disasters through numerous programs established by Congress. One of the most important of these programs is the Small Business Administration's (SBA) disaster loan assistance program. SBA's disaster assistance loans are divided into two types: low interest affordable loans, which have generally been available to those applicants who do not have the ability to borrow from non-government sources or to provide for their own disaster recovery, and higher interest loans, which were typically given to applicants that do have the ability to provide for their own recovery. In the past, the criteria used to determine which applicants could not get credit elsewhere was based on a cash flow test that allowed most recipients to fit into this category.

We have recently been informed that in October of 2007 the Office of Management and Budget (OMB) directed the Small Business Administration (SBA) to award at least 30% of their disaster loans at the higher interest rate, whether for individuals or businesses. It is our understanding that as a result of this directive, the agency has responded with criteria changes that have dramatically increased the number of individuals and businesses receiving high interest loans, rather than the low interest affordable loans. The result of these changes is to significantly reduce the usefulness of SBA loans for those struggling to recover from disasters. The higher interest rate loans are usually of little value except for the most desperate of borrowers since they are at or above the market rate. And, for businesses, the three year repayment criteria associated with such loans is excessively short. SBA disaster loans have normally been of far longer duration.

The reasoning behind such an arbitrary directive is unclear, and indeed runs contrary to the purpose behind federal disaster assistance, namely to provide useful relief to individuals and businesses during the recovery process. It runs counter to this mission for SBA to offer loans at market rate or above to people who have in the past qualified for more affordable loans based on an arbitrary OMB directive. SBA disaster loan assistance should be awarded based on the criteria used prior to October of 2007 - primarily the cash flow test and assets test for individuals and the cash flow test and available net worth test for businesses. Consider that of the loans processed in Louisiana after Hurricane Katrina, only 2% were given the higher interest rate, yet in the current disaster in Iowa that percentage has raised dramatically to 30%.

We urge you to act immediately to address this disparity. Specifically, OMB should remove the arbitrary criteria and allow SBA to award loan assistance as it has in the past. We also request that these criteria changes be reversed retroactively so the SBA will review all disaster loan applications given the higher interest rate since October 1, 2007 to determine if the lower rate would be more appropriate. We would appreciate your looking into this situation personally.

Sincerely,



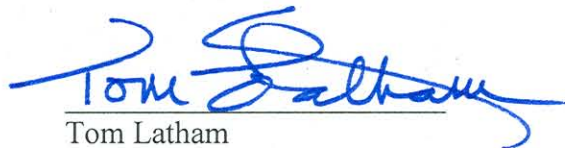
Tom Harkin
United States Senator



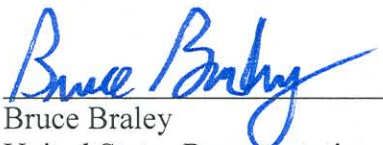
Charles Grassley
United States Senator



Leonard Boswell
United States Representative



Tom Latham
United States Representative



Bruce Braley
United States Representative



Dave Loebsack
United States Representative



Steve King
United States Representative